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RUEHC/DEPT OF LABOR WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RHMFISS/DEPT OF HOMELAND SECURITY WASHINGTON DC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 KATHMANDU 001243

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TAGS: [ECON](#) [ETRD](#) [ELAB](#) [NP](#)
SUBJECT: NEPAL: LABOR WOES FOR COLGATE-PALMOLIVE

Classified By: Charge d'Affaires Randy W. Berry. Reasons 1.4 (b/d).

Summary

1. (C) After over a decade of operations in Nepal, Colgate-Palmolive announced at its Hetauda factory on November 21 that it had sold its entire interest in the Nepal operation to a private company. The agreement included the express understanding that all employees of the company would continue their employment on existing terms and that the Nepali operation would continue to manufacture and export tooth powder to India. Despite the protections included in the agreement Colgate's employees reacted violently, reportedly calling in local members of the Maoist Young Communist League (YCL) and the UML Youth Force to help enforce their demands. The former Colgate employees have taken the position that they will not work under the new ownership and are demanding compensation from Colgate. Although Colgate has a signed purchase agreement, the company is not out of Nepal yet. A senior Colgate director told Emboff that the company objectives are now to negotiate a reasonable settlement with the employees, finalize the share transfer and repatriate the proceeds from the sale. Government approval is required for both the share transfer and the remittance of the sale proceeds.

Colgate's Interest in Nepal

2. (C) In 1997, Colgate-Palmolive (India) Limited ("Colgate") opened a factory in Nepal doing business as Colgate-Palmolive (Nepal) Private Limited (CP Nepal). The factory, located in the Hetauda industrial area initially produced both toothpaste and tooth powder for export to India. The multinational's presence fueled the growth of several supply chain industries, providing a captive market for packaging materials and other inputs for Colgate's operation. In 2005 Colgate significantly downsized the operation negotiating voluntary retirement packages with a number of employees. Since 2005 Colgate has continued to operate the factory on a much smaller scale, employing between 60 and 65 people and producing and exporting only tooth powder. In 2008, as result of changing market conditions and the difficult operating environment in Nepal (a volatile and often hostile labor market, power outages and frequent strikes) Colgate began exploring exit strategies.

Colgate Pulls Out of Nepal

¶3. (C) On November 21, Colgate announced that it had transferred its entire share holding in CP Nepal to Everest Hygiene Products Private Limited (Everest) on November 19, ¶2008. Mr. Kishore Khanal and his family own Everest and several other down market operations that supply packaging materials and other inputs to the Colgate factory. The purchase agreement included an express understanding that all employees of the company would continue their employment on existing terms (including retirement benefits) without any break in service and that the Company would continue to manufacture and export toothpowder to India.

Labor Responds Violently

¶4. (C) Despite the protections included in the agreement for both the company and its employees, after the sale was announced at the factory on November 21, violence ensued. The employees reportedly called in local members of the Maoist Young Communist League (YCL) and the UML Youth Force to enforce their demands. Colgate's Nepal country manager and a senior Colgate finance officer were held at Simira airport (the nearest airport to Hetauda) for nearly 10 hours before police were able to safely escort them across the border to India. Senior representatives of the Everest company, including Khanal, were beaten and held captive for several days on the factory premises and then later in a guest house on the industrial estate.

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Employees Demand Separation Package

¶5. (C) The former Colgate employees have now decided that they will not work for the Company under its new ownership and are insisting on compensation from Colgate. They have all decided to leave the Company effective November 20, 2008. They have proposed a voluntary retirement scheme for all employees which in Colgate's opinion is exorbitant and unacceptable. The proposal includes a demand for 180 day of salary for every completed year of service and payments for skill development, medical treatment, relocation expenses, insurance payments, debt forgiveness, etc...

Colgate's Next Move

¶6. (C) Although Colgate has a signed purchase agreement, the company is not out of Nepal yet. A senior Colgate director told Emboff that Colgate's objectives are now to close the factory, arrive at a fair and reasonable settlement with the employees, finalize the share transfer and repatriate the proceeds from the sale. Since the employees effectively decided to leave the company on their own, Colgate may not be legally obligated to make any payment of compensation. However, Colgate has responded to the employees' demands with an offer for a one-time payment. The offer by its own terms is good until December 5, 2008. An application to the Director General at the Department of Industries has been submitted seeking approval of the share transfer. Departmental approval is required before the Registrar of Companies can complete the share transfer. In addition, the Department of Industry's approval is required for the remittance of the sale proceeds.

Comment

¶7. (C) Colgate has been looking for a way out of Nepal for at least a year now. The fact that the purchaser, Everest, owns and operates several down market operations with over 150 employees should have made the sale less controversial. If labor shuts down the Colgate operation; they will also put

the ancillary industries out of business - and another 150 jobs will be lost. Concerns about the credibility or viability of the operation under new ownership may be underlying and maybe credible but everything about the process is counter-productive. Nepal needs real economic growth and new jobs to realize development goals and ensure future stability. Labor needs to learn fast that calling in the local thugs to abduct and harass investors, demanding severance packages instead of jobs and insisting on unreasonable compensation packages are obstructive, destructive and unacceptable.

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